



# Frank Lasee

WISCONSIN STATE SENATOR  
FIRST SENATE DISTRICT



## Testimony of Senator Frank Lasee

### Senate Bill 66

May 8, 2013

The Public Deposit Guarantee Account (PDGA) was established in 1931 to pay public depositors (governments) for money lost in a bank or credit union failure. Revisions were made to the PDGA in 1985. Under current law, payments are made for losses up to \$400,000.

Since the PDGA started, three losses have been paid out. Most of the money has been recovered. Since 1985, \$25 million has been added by payment of a 5% interest rate. As of September 2012, \$48 million has been pledged to the PDGA fund. There is no actual money in the fund, it is not an account holding state funds, instead it is a liability on the books of the state, required to be paid when approved by DFI.

This bill does two things. First, it raises the payment amount to \$750,000. Second, it sets the annual interest rate payment to the fund as the annual rate published by DFI.

The purpose of this bill is to encourage local governments to invest their funds in local banks and credit unions. More local money means more opportunities for local investment and jobs. The bill also reduces significant payments to the PDGA fund in the form of interest. The fund is very healthy, so there is no need to continue with high interest payments every year.

This bill is supported by both credit unions and banks and it has received bi-partisan support in the legislature.

May 8, 2013

Good morning Chairman Schultz and the Members of the Committee.

My name is Paul Hoffmann and I am the President and CEO of Monona State Bank in Monona Wisconsin. I am also the current Chairman of the Board of the Community Bankers of Wisconsin.

Monona State Bank is a community bank with about \$350 million in total assets and about 85 employees. We have three locations in the communities of Monona and Cottage Grove. We are fortunate to be the deposit accounts for a number of municipalities, school districts and other government entities. The balances vary widely can range from on average of \$250,000 up to \$13 million at times. For example, we bank the City of Monona. The City has a number of account relationships including the main operating accounts, the recreation department, the library, and water district to name a few.

I am speaking before you today to encourage you to support SB-66.

When we are bidding on these deposit relationships, we refer to the State of Wisconsin Public Deposit Guarantee to help give assurance to these government agencies that their deposits are safe with us. We also can pledge additional bank securities and other programs to protect the deposits.

While the guarantee usually doesn't cover all the deposits, it can help to keep the money on deposit at our local bank vs. sending the money to a fund or institution that is not located in our market.

We use these deposits to lend out to clients for local projects, to start businesses, to expand businesses and to facilitate the growth of the local economy. Usually, the governmental depositors are some of our largest depositors. If we did not have those deposits, then we would likely need to bring deposits from outside of our market. So we are able to lend out the local deposited money for local financing needs.

The guarantee can also help out so that we don't have to pass on additional costs to the depositors for acquiring additional securities or other protection programs. This means we can pay higher rates or charge less for fees because our costs go down. It also helps the community bank's liquidity because we don't need to pledge as many government securities to protect the deposits.

In the event of a bank failure in the State of Wisconsin, the deposit accounts of the public entities would be protected up to \$750,000. This means that school districts, municipalities, public libraries and other government agencies would be protected in case of a bank failure. It protects our public money on deposit and is not a bank bailout fund. The increase will be good for the state public depositors and the communities that they serve.

I have had firsthand experience with a bank that failed and the Public Deposit Guarantee fund successfully paid out to those public depositors. I worked for the Park Bank of Madison and we purchased the First National Bank of Blanchardville from the FDIC when that bank failed. It happened on a Friday in May of 2003. The local school district, the village of Blanchardville and some local townships banked with the local bank. As an example, when the bank failed, the school district happened to have more money in their accounts exceeding the FDIC limit.

They had moved money in their account because Friday was a school district payday. I believe it was larger than normal because of payments for teachers for the summer months. If the Public Deposit Guarantee Fund was not in place, then the school district would have lost a substantial amount of money for a small district. The fund worked just as it was designed to do. The State of Wisconsin paid out quickly on the claims and the teachers' paychecks were honored.

The funds in the account currently total over \$48 million dollars. The original funds came from banks in Wisconsin. The fund has paid out \$605,000 in net dollars since 1985 with 12 bank failures. The fund has been growing from the interest that is earned on the original bank funding over the years.

The fund has been successful in helping to keep Wisconsin money on deposit at Wisconsin banks all across the state. It has helped to protect the public deposits in case of bank failure. It is a successful program that works.

I truly believe the increase in the Public Guarantee to \$750,000 will help keep more money on deposit at local institutions where the funds can be used to promote the economic vitality of the communities and create jobs. I believe the time is right to make the change.

Thank you for your time and consideration.

Paul Hoffmann  
President & CEO  
Monona State Bank  
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Monona, WI 53716  
608-223-2183

Chairman, Community Bankers of Wisconsin  
2012-2013



**Public Hearing of the Senate Committee on  
Financial Institutions and Rural Issues**

**Senate Bill 66 – Public Deposits**

**May 8, 2013**

**Testimony of Daryll J. Lund, President & CEO  
Community Bankers of Wisconsin**

Thank you Chairman Schultz and Members of the Committee. My name is Daryll Lund, President & CEO of the Community Bankers of Wisconsin (CBW). CBW is a statewide trade association representing the interests of approximately 200 community banks doing business in 900 offices across Wisconsin.

I appear before you today in support of SB-66. CBW would like to thank Senator Frank Lasee for introducing this important legislation. As Senator Lasee indicated, SB-66 is supported by both banks and credit unions and has bi-partisan support in the legislature.

If passed, SB-66 would provide encouragement and additional protections for public depositors (e.g., the state, cities, villages, towns, counties, school districts, etc.) to keep Wisconsin taxpayer funds in local Wisconsin based banks and credit unions which will lead to local economic development lending and job creation.

As way of background the Wisconsin State Deposit Guarantee Fund was created in 1931. Establishment of this Wisconsin fund pre-dates the establishment of the Federal Deposit Insurance Corporation which was established in 1933. The Wisconsin State Deposit Guarantee Fund is an example of a public/private partnership that has served our state successfully for the past 82 years.

In 1955, the Wisconsin Legislature discontinued the State Deposit Guarantee Fund and transferred the balance of the Fund to the state's general fund. The state however pledged general purpose revenues to the payment of any subsequent losses of public deposits up to the aggregate of the Fund's balance as of that date. This pledge commitment by the State of Wisconsin continues to this day with a current contingent liability balance of approximately \$48.6 million as of December 31, 2012.

In 1985, a special Wisconsin Legislative Council committee recommended additional changes to the State Deposit Guarantee Fund that were adopted into law. Those changes included abolishing the State Deposit Guarantee Fund, retaining the current pledge of general purpose revenues for the payment of losses of public deposits up to \$400,000 for any individual public depositors that is above the deposit insurance provided by an agency of the United States such as the FDIC. (Current FDIC limit is \$250,000) and the Fund balance will grow at an annual rate of return of 5 percent.

According to the Wisconsin Department of Financial Institutions net losses to the public deposit guarantee account have been \$605,516.26 since 1985. It is also important to note that no losses have occurred in the last 10 years with 2003 being the last net loss. (Attachment – Wisconsin Department of Financial Institutions letter dated February 5, 2013).

SB-66 proposes the first legislative changes to the public deposit guarantee account in 28 years. We believe these changes benefit the State of Wisconsin, public depositors and the Wisconsin banks and credit unions that serve these public entities.

The changes proposed in SB-66 are as follows:

- 1) Increase the payment to any one public depositor from the current \$400,000 to \$750,000.
- 2) Change the 5% per year the public deposit guarantee account currently earns to the Department of Financial Institutions (DFI) published interest rate on required residential mortgage loan escrow accounts currently set at 0.20% for 2013. This change will result in the contingent liability of the state being reduced by just under \$30 million over the next 10 years.

Thank you for your consideration.



State of Wisconsin  
Department of Financial Institutions

Scott Walker, Governor

Peter Bildsten, Secretary

February 5, 2013

Mr. Daryll Lund  
Community Bankers of Wisconsin  
455 S. Junction Road, Suite 101  
Madison, WI 53719

RE: Public Deposit Guarantee Fund Disbursements

Dear Mr. Lund:

Thank you for contacting the Department of Financial Institutions (DFI) regarding disbursements made from the State Deposit Guarantee Fund (the fund).

Our records indicate that disbursements have been made on three different occasions, summarized below:

- 1985: The closure of Strong's Bank (Dodgeville) resulted in several disbursements totaling \$1,571,039.45. This entire amount was ultimately recovered by the state over seven years, with interest, resulting in a net gain to the fund of \$48,859.58.
- 1986: The closure of The American Bank (Alma) resulted in several disbursements totaling \$1,366,175.78. Of this amount, \$1,230,500.86 was recovered over eight years, resulting in a net loss to the fund of \$135,674.92.
- 2003: The closure of The First National Bank of Blanchardville (Blanchardville) resulted in several disbursements totaling \$1,086,778.48. Of this amount, \$568,077.56 has been recovered to date, resulting in a net loss to the fund of \$518,700.92.

DFI records show a total of \$4,023,993.71 in disbursements, and \$3,418,477.45 in recoveries. This represents a net loss to the fund of \$605,516.26. Additionally, there were nine other bank failures over that time period (1985-present) that resulted in no disbursements from the fund.

Thank you again for contacting DFI. Please do not hesitate to contact us again should you need any additional information.

Sincerely,

Peter Bildsten  
Secretary

PB:lv

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